

1997 Montana Fiduciary Income Tax Return Form FID-3

General Instructions

Who Must File

All estates and trusts except those held for educational, charitable, or religious purposes must file a fiduciary return. Either the fiduciary or the beneficiary may pay any tax due. However, the fiduciary must file the return. No distinction is made between living trusts and testamentary trusts. A copy of the federal fiduciary income tax Form 1041 must be attached. Estates and trusts are allowed one exemption deduction.

If the trustee of the estate or trust is domiciled or has nexus in Montana, all income is taxable to Montana. If the trustee is domiciled outside of Montana, then only the income that is derived from Montana sources is taxable to Montana.

When to File

You must mail your return for calendar year 1997 before midnight April 15, 1998. If you operate on a fiscal year, mail your return before midnight the 15th day of the fourth month following the close of your fiscal year.

Where to File

Send your completed and signed form to:

Tax Due:

Income & Miscellaneous Tax Division
Montana Department of Revenue
PO Box 6308
Helena, Montana 59604-6308
OR

Refund/Zero Balance Due:

Income & Miscellaneous Tax Division
Montana Department of Revenue
PO Box 6577
Helena, Montana 59604-6577

Make check payable to the Department of Revenue.

If You File Late

The penalty is 5% of your unpaid tax (a minimum of \$5 is due on all late returns filed) if you don't mail your return before midnight April 15, 1998 (or before midnight the 15th of the fourth month following the close of your fiscal year).

If You Pay Late

The penalty is 10% of the unpaid tax (a minimum of \$5) if you don't pay your tax by the due date.

Interest on Unpaid Tax

The interest rate is 9% a year on unpaid tax.

Extension of Time to File

A four month extension for filing may be obtained by submitting Form EXT-97. If required, attach your remittance to the Montana extension form. An additional two month extension

(beyond the four month extension) may be requested by submitting a copy of Federal Form 2688 on or before August 15, 1998.

To obtain a Montana extension, you must have paid by estimated tax payments, withholding tax, or a combination of both, either: (1) 90 percent (90%) of your current year's liability or 2) 100 percent (100%) of your previous year's total tax liability. Detailed instructions on Form EXT-97.

A copy of the federal extension will not be accepted nor will telephone requests for extensions be accepted.

An extension of time to file your return is **not** an extension of time to pay. If you still owe money after you subtract your withholding, estimated payments and credits and do not meet the above requirements, a late pay penalty of 10% of the unpaid tax (a minimum of \$5.00) will be assessed. When filing a tax return with an extension, interest must be added to any tax due at a rate 3/4% per month (.0075), computed from the original due date of the return.

When filing a calendar year return, your extension request must be postmarked by April 15, 1998. For a fiscal year filer, extension requests must be postmarked by the 15th day of the fourth month following the close of your fiscal year.

Note: Montana law does not provide for an automatic two month extension from April 15th to June 15th for those persons outside the United States on the due date of the return.

Amended Returns

If you discover an error in a return already filed, submit an amended return using Form 2X to correct the mistake.

Estimated Tax Underpayment Penalty

In 1996 you must have paid through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current year's tax liability after credits, or 2) an amount equal to 100% of your previous year's total tax liability. If you did not meet this requirement, you may be subject to an underpayment penalty.

Line-By-Line Instructions

Complete the name and address section. Include your federal identification number. Please check the box for: trust, estate or grantor; and resident full year/nonresident full year.

Part I—Income

Attach federal schedules

Report all income of estates or trusts no matter where it was derived during the taxable year. Total income before Montana adjustments should be the same as on the federal Form 1041.

Line 1—Enter total of all taxable interest.

Line 2—Enter dividends.

Line 3 and 4—Enter income or loss from partnerships and other estates or trusts EXCEPT for the following:

Enter dividends on line 2. Enter capital gain or loss from Schedule D, federal Form 1041 on line 7. Enter ordinary gain or loss from federal Form 4797 on line 8. (Enter partnership name and federal employer identification number(s) on an attached sheet.)

Line 5—Enter net rent and royalty income as reported on federal Form 1041. Attach schedule detailing income and expenses. Include fiduciary's share of depreciation and depletion.

Line 6—Enter net business and farm income or loss. Attach a copy of the federal Schedule C, CEZ or F. You must also complete and attach a Montana Form OFLT.

Line 7—Enter capital gain or loss. Enter 100% of capital gain from federal Schedule D (Form 1041).

Line 8—Enter from federal Form 4797 the gain or loss from the sale or exchange of capital assets and from involuntary conversions.

Line 9—Enter other taxable income not reported elsewhere. Attach a separate sheet if necessary.

Line 10—Add lines 1 thru 9. The total should be the same as federal Form 1041.

Additions to Income

Line 11—Include interest income from non-Montana bonds and other obligations of another state or its political subdivisions if not already included on line 1. Interest on Montana bonds is not taxable.

Line 12—If you claimed federal income tax withheld or payment of estimated tax as an itemized deduction in a prior year, any refund of that tax is income in the year it is received.

Line 13—Specify other additions.

Line 14—Enter total of lines 11, 12 and 13.

Line 15—Enter total of lines 10 and 14.

Reductions of Income

Line 16—Enter interest income from bonds and other obligations of the United States included on line 1. U.S. obligations are exempt from taxation.

Line 17—Nonresidents only.
Enter total income derived from sources outside Montana.

Line 18—Exempt Pension & Annuity Income
You can exempt all benefits paid by the Railroad Retirement Board, if you reported them on line 9. If you received benefits paid by railroad companies or trusts refer to the pension & annuity worksheet below.

Pension & Annuity Worksheet

- | | |
|--|---------------|
| 1. Enter the federal total income from line 10. | _____ |
| 2. Phase-out limitation | <u>30,000</u> |
| 3. If line 1 is smaller than line 2, enter the smaller of the pension and annuity income or \$3,600 on line 18. Stop Here. | _____ |
| If line 1 is larger than line 2, subtract line 2 from line 1 & enter the result. | |
| 4. Enter the pension and annuity income or \$3,600, whichever is smaller. | _____ |
| 5. Multiply the amount on line 3 times two (x2) and enter the result. | _____ |
| 6. Pension & Annuity Exclusion. Subtract line 5 from line 4. If the result is zero or negative, there is no retirement exclusion. If the number is positive, this is the retirement exclusion. Transfer this number to line 18 on Form FID-3. | _____ |

Line 19—State refund.

If you included your Montana state income tax refund on line 9, deduct it here.

Line 20—Specify other reductions.

Line 21—Enter the total of lines 16 thru 20.

Line 22—Montana Total Income.
Subtract line 21 from line 15.

Part II—Deductions

Non-resident fiduciaries are allowed deductions that are attributable or directly related to the production of Montana income.

Line 23—Enter interest expenses deductible for federal tax purposes. Note: Personal interest is no longer deductible.

Line 24—Enter taxes paid or accrued within the taxable year, including (but not limited to) federal income tax. State income tax is not deductible.

Line 25—Enter charitable contributions deductible for federal tax purposes.

Line 26—You can deduct fiduciary fees and administrative expenses claimed for federal income tax purposes if the expenses were not claimed as a deduction in the determination of Montana inheritance tax.

Line 27—Enter attorney, accountant and return preparer fees if the expenses were not claimed as a deduction in the determination of Montana inheritance tax..

Line 28—Enter casualty or theft losses deductible for federal tax purposes.

Line 29—Attach a separate sheet listing authorized deductions not deductible elsewhere on the form. (Example: Net operating losses allowed for federal income tax section 642 (d) of the Internal Revenue Code.)

Line 30—Add Lines 23 thru 29. Enter result.

Line 31—Total Adjusted Income.
Subtract line 30 from line 22.

Line 32—Income Distribution Deduction.

Enter income to be distributed to the beneficiaries for the taxable year and/or other amounts paid, credited or to be distributed for the taxable year. (The amount should equal the combined total of the beneficiary or beneficiaries share from Part III.)

The Capital Gains exclusion has been repealed.

Line 33—Net Income Before Exemption.

Subtract line 32 from line 31.

Line 34—Each Fiduciary is allowed one exemption of \$1,550. (Nonresidents must prorate) Proration amount is line 22 divided by line 10 times \$1,550.

Line 35—Taxable Income of Fiduciary.

Subtract line 34 from line 33.

Line 36—Taxable Income from line 35, page 1.

Tax Computation

Line 37—Tax Liability. Residents and nonresidents enter the amount of tax from the tax table.

Line 38—Tax on lump-sum distributions (which haven't been included in adjusted gross income).

Enter 10% of the federal tax on lump-sum distributions. Attach a copy of federal Forms 4972 and/or 5544, and your 1997 Form 1041.

Line 39—Subtotal. Add lines 37 and 38.

Line 40—Credits from Form 2A. Enter your total credit amount from line 107, Form 2A, Schedule II. See page 4 of instructions for information on credits.

Line 41—Subtract line 40 from line 39. The total on line 41 cannot be less than zero.

Line 42—Investment Credit Recapture.

Enter from Form RIC. (Note: Even though you may not have a tax liability on line 37 you must add line 42.)

Line 43—Old Fund Liability Tax

There is an Old Fund Liability Tax (OFLT) assessed on income received from self-employment and the ordinary income (passive and nonpassive) from partnerships, S corporations, estates, trusts and limited liability companies.

Additionally, the OFLT is assessed on members and managers of limited liability companies. (Does not include publicly traded LLC's). Allocated income is subject to OFLT. **Attach Form OFLT and copies of ALL K-1's from partnerships, S corporations, estates, trusts, and limited liability companies to your Montana income tax returns. If you do not have income from one of the above activities, you do not need to complete the OFLT forms.**

Schedule E rental income is not subject to the tax. The OFLT is assessed on the wages of employed persons, however, the tax is deducted directly from their wages. Income derived from the performance of work or services for which compensation is received but no W-2 is issued, is also subject to OFLT. Examples of this type of income would include director's fees, administrator's fees, non-employee compensation, etc., reported on a 1099 statement, commodities paid in lieu of wages, etc. Only income earned in Montana is subject to the tax.

The tax rate is .2% (multiplier of .002). The tax is calculated on a per activity basis (each partnership, each Schedule C business, each S corporation, etc.).

Line 44—Total Tax. Add lines 41, 42 and 43.

Line 45—Enter the amount of payments made on 1996 estimated Montana fiduciary income tax.

Line 46—Enter the amount of Montana income tax withheld as shown on withholding tax statements. Attach W2's.

Line 47—Total payments. Add lines 45 and 46.

Refund or Balance Due.

Line 48—Amount Overpaid.

If line 47 is larger than line 44, subtract line 44 from line 47. You can choose to have all or part of this amount refunded to you (line 49). The remainder, if any, can be applied to your estimated tax for 1998 (line 50). A refund or credit will be made only if the overpayment is \$1 or more.

Line 49—Refund

Enter the amount from line 48 that you want refunded.

Line 50—Applied to 1998 Estimated Tax

Subtract line 49 from line 48. This is the amount that will be applied to your estimated tax for 1997.

Line 51—Balance Due.

If line 44 is larger than line 47, subtract line 47 from line 44. This is the amount you owe. If the balance due is less than \$1 payment is not required.

If a return is filed without full remittance of all tax, penalties and/or interest due, you are advised to make regular payments pending contact by the department's collection staff.

Part III—Schedule of Distribution to Beneficiaries

This must list the name, social security number(s), and the beneficiaries share of the capital gains and/or share of income. If there are more than 11 beneficiaries, attach a separate schedule.

Signature: The fiduciary or a representative must sign and date the return; identify any person, firm or corporation who prepares the return on the line "Signature of preparer other than fiduciary;" and include address with zip code.

Form 2A Schedule II Credits Credits Against Tax

(Please request forms for credits from Department of Revenue, Income Tax Division, PO Box 5805, Helena, Montana 59604-5805 if needed).

Line 92—College Contribution Credit. See Form CC for instructions.

You may be entitled to a credit for deductible contributions made during 1996 to a general endowment fund of the Montana university system foundations or to a general endowment fund of a private college or its foundation. The credit is **10% of the contribution with a maximum of \$500** and is not refundable. To be eligible for the credit the college must offer a baccalaureate degree level education program.

Line 93—Planned Gift Credit—Montana statute provides a credit for “planned gifts”. Planned gifts are defined as irrevocable contributions to a permanent endowment held by or for a tax-exempt organization. The gifts must be made in the form of a trust, annuity, life estate agreement or paid-up life insurance policy. A qualified endowment is a permanent, irrevocable fund held by a Montana incorporated organization that is tax exempt or a bank or trust company holding the fund on behalf of a tax exempt organization.

Taxpayers are allowed a credit of 50% of the present value of qualifying gifts. The maximum credit is \$10,000 and the credit is not refundable. Unused credits cannot be carried to other tax years. Contributions used in calculating the planned gift credit cannot be claimed as an itemized deduction. **Attach statement from endowment fund.**

Line 94—Elderly Care Credit. See Form ECC for instructions. You may be eligible to receive a credit for paying certain expenses of an elderly family member who is 65 or older or who has been determined disabled for social security purposes.

Line 95—Credit Allowed for Income Tax Paid Other States or Countries. Only resident estates or trusts may claim this credit.

If the estate or trust is a resident and the adjusted gross income includes income from a source in another state or country, you are entitled to a credit for income tax paid to the other state or country.

Compute the credit on Schedule V, Form 2A-Page 3 and enter the amount on line 93, Schedule II, Form 2A. The credit claimed must be supported by a copy of your income tax return filed with the other state or country. A separate computation must be made for each state or country for which a credit is claimed. The total credit you take must not exceed your tax liability on line 40.

Line 96—Contractor's Gross Receipts Tax Credit.

You are allowed a credit against Montana income tax liability for the public contractor's gross receipts tax you paid. You may claim the credit for the taxable year within which your net income from contracts subject to the gross receipts tax is reported. If you report your income from contracts on a percentage of completion basis, the credit must be allocated accordingly. The allowable credit is the actual gross receipts tax paid (after taking the personal property tax credit) not in excess of your tax liability. Attach a schedule to return providing:

- Contractor's name ➤ Primary contractor
- Date and amount withheld ➤ Location of job
- Sub-contractor

Line 97—Qualified Investment Credit.

You can claim a credit of 5% of your 1995 federal investment tax credit.

The property you claim for credit must have been in service in Montana and used in the production of Montana income.

To take the credit, complete Schedule VI, Form 2A-Page 3, and attach a copy of Federal Form 3468 which shows a computation of the federal credit. **No investment credit is allowed for rehabilitation property.**

Credit for the taxable year can not exceed \$500. No unused portion of the credit earned in 1996 can be carried back or forward to other years.

If you have a combination of current year investment tax credit and carry forward credit from years prior to 1983, you must first apply the current year credit and then the carry forward credit. Please attach a copy of your carryforward/carryback computations.

If the property is used both inside and outside the state, the credit is prorated according to the number of days the property is used in Montana and the length of time owned during the year.

Line 98—Credit for Installation of Geothermal System. **Only residents of Montana can claim this credit.**

See complete instructions on ENRG-B which must be completed to claim this credit. Installation must be located in Montana.

Line 99—Credit For Energy Conservation Installations. Form ENRG-C must be completed to claim this credit. Installation must be located in Montana.

Line 100—Credit for Wind-Powered Generation Equipment. You must use Form 2 WPC to claim the state credit. Installation must be located in Montana.

Line 101—Recycling Credit.

Credit for investments in depreciable equipment or machinery to collect, process or manufacture a product from reclaimed material. Please complete and attach Form RCYL to claim this credit. Installation must be located in Montana.

Line 102—Alternative Fuel Credit.

You must complete and attach Form AFCR to claim this credit.

Line 103—Montana Capital Company Credit.

You can claim an income tax credit for investments in Montana capital companies certified by the Montana Department of Commerce. Attach a detailed explanation of your claim for the credit.

Line 104—Dependent Care Assistance Credit (DCAC).

An employer can claim a credit against his personal income taxes for amounts paid or incurred during the taxable year by the employer for dependent care assistance. Fill out form DCAC which can be obtained from the department.

Line 105—Credit for Health Insurance for Uninsured Montanans.

This credit is available to employers who make disability insurance available to employees. See Form HI for details.

Line 104—All Other Credits. Provide detailed information.

Line 107—Total Credits. Add lines 90 through 105.

To obtain necessary forms call 1-406-444-0290 For tax return assistance, call 1-406-444-3674, or TDD (hearing impaired) 1-406-444-2830.

Income & Miscellaneous Tax Division
Montana Department of Revenue
PO Box 5805
Helena, MT 59604-5805